



"Beau Herrold" <beau@layfam.com> on 03/08/2001 10:07:42 AM

Please respond to "Beau Herrold" <beau@layfam.com>

To: "Lay, Ken" <kenneth.lay@enron.com>
cc: "Lay, Mark" <mark@layfamily.com>
Subject: photofete

Ken -

Since our last conversation regarding Photofete, I told you that I didn't feel too strongly about investing more money into the company. Primary reservations include: many similar players in the DAM (Digital Asset Management) space with big name backings (Enron has invested in eMotion & Artesia Technologies); no apparent proprietary technology; smaller start-up versus more established players; not sure if management is comprised of enough seasoned players to get them to that next level executing sizeable contracts.

However, I will credit photofete with a couple of things. They apparently have a well received product, because Enron uses them and they just signed a large contract with BP. Skilling thinks highly of photofete, is on the advisory board, and has committed a total \$150,000, which includes his original \$60,000 investment. Also, Wincrest Ventures, Chuck Watson's group, will put in \$90,000 bringing their total to \$150,000 like Skilling.

FYI, Skilling called me two weeks ago after their investor meeting and really put the pressure on me/us. He was pretty excited about the company and recommended that we follow-up on our original investment. With all due respect, I must say it appeared that Skilling isn't that familiar with the DAM space, no pun intended. I told him about some things that I had discovered through my own due diligence, which he had no rebuttal for other than to try at that point to get off the phone with me.

They finally have a draft of the terms for this Series A Preferred shares financing, which puts the company's post money valuation of about \$1.8 million. Skilling, Wincrest Ventures, us and two or three others it will bring this Series A round close to \$400,000. It appears that our original \$60,000 investment will be converted from a promissory note to these Series A shares, as well as all outstanding interest on the note.

Per our last conversation, I made Jennifer sweat. Since the terms are shaping-up, I gave her word yesterday that we would do up to an additional \$60k. I hope that this allows them to ramp-up their revenues and win the race, at least locally. At this time, I think that they have a viable chance, but I wouldn't put this in the home-run category, nor would I call it a pop-fly. Maybe, a close single that will hopefully generate a run. (Pardon my baseball analogies, I guess with all this good weather I am ready for the Astros' season to begin again at Enron).

- Beau

Beau -
This sounds
fine to me,
Ken
3/12/01